



NEWS

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This is an unofficial announcement of Commission action. Release of the full text of a Commission order constitutes official action.
See MCI v. FCC, 515 F.2d 385 (D.C. Cir. 1974).

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JOINT INTERNATIONAL BUREAU AND MEDIA BUREAU WORKING PAPER ON DBS-CABLE COMPETITION

Washington, D.C. -- The International and Media Bureaus announced today the availability of a paper that examines substitutability between Direct Broadcast Satellite ("DBS") and basic cable services. The joint working paper entitled "Competition between Cable Television and Direct Broadcast Satellite – It's More Complicated than You Think," by economists Andrew Wise and Kiran Duwadi, is now available on the International Bureau's Working Paper web site at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-255869A1.pdf.

The analyses and conclusions in the Working Paper Series are those of the authors and do not necessarily reflect the views of other members of the Commission staff or the Commission itself.

The working paper finds that there is a cost to switching between cable and DBS. DBS is often considered a substitute for basic cable service, but the paper finds that cable subscribers may face substantial switching costs to move from cable to DBS services. Wise and Duwadi use price data from the FCC's annual cable price survey and other related demographic variables to examine the cost of switching from cable to DBS and vice versa. They find some firm-specific cable attributes and demographic variables that influence consumer choice, and find that switching costs appear to affect consumers' decisions to switch from one service to another.

The paper explains that substantial price changes, taking into account differences in quality, can cause consumers to switch between services. The paper also examines whether consumer behavior varies depending on the size of cable price per channel or quality-adjusted price change (i.e., monthly cable rates divided by the number of channels for the first two tiers of channels). The authors find that when quality-adjusted prices for basic cable services increase substantially, subscribers will switch from cable to DBS, presumably at the point at which the price change is larger than the cost of switching. As a result, while switching costs may dampen price effects in cable-DBS competition, the presence of DBS still acts as an imperfect constraint on the ability of cable operators to raise price per channel.

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